

MASS. T1.1/2:984 - 989



Oversight Committee
Commonwealth of Massachusetts
Employees Deferred
Compensation Plan:



We have examined the statements of assets available for plan benefits of the Commonwealth of Massachusetts Employees Deferred Compensation Plan (the Plan) as of December 31, 1984 and 1983 and the related statements of changes in assets available for plan benefits for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the assets available for plan benefits of the Plan at December 31, 1984 and 1983 and the changes in those assets for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

MASSACHUSETTS

DEFERRED COMPENSATION

ANNUAL REPORT—1984

PUBLISHED TO HELP ALL MASSACHUSETTS STATE
EMPLOYEES STAY BETTER INFORMED ABOUT THEIR
STATE DEFERRED COMPENSATION PROGRAM

Peat, Marwick, Mitchell & Co.

Columbus, Ohio
June 28, 1985

August 31, 1985

Robert Q. Crane,
Plan Administrator

P-439

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July 2, 1985

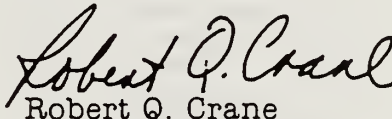
Dear Deferred Compensation Participant,

As Plan Administrator of the Massachusetts Deferred Compensation Program, I am pleased to present this annual report for the calendar year ended December 31, 1984.

This report includes the auditors' report of one of the big eight CPA firms on their examination of the plan's financial statements. The three providers of options under our plan are the Bank of Boston, Nationwide Insurance and Peoples Life Insurance Company.

We encourage your comments and suggestions about the program. Please feel free to communicate your ideas through the offices of the State Treasurer, members of the Deferred Compensation Oversight Committee, or to PEBSCO, the Plan Coordinator—at (toll free) 1-800-545-4730.

Very truly yours,

A handwritten signature in cursive script that reads "Robert Q. Crane".

Robert Q. Crane

Plan Administrator



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COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN

Statements of Assets Available
for Plan Benefits

December 31, 1984 and 1983

	1984	1983 Restated (note 1(b))
Investments (note 3)	\$106,930,292	71,830,636
Contributions receivable	1,851,398	2,576,676
Cash surrender value of life insurance contracts (note 4)	324,943	127,291
Assets available for plan benefits	<u>\$109,106,633</u>	<u>74,534,603</u>

See accompanying notes to financial statements.

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN

Statements of Changes in Assets Available
for Plan Benefits

Years ended December 31, 1984 and 1983

	1984	1983 Restated (note 1(b))
Additions:		
Employee contributions	\$ 30,031,677	22,227,724
Interest income	9,786,790	6,273,004
Increase in cash surrender value of life insurance contracts	197,652	63,720
	<u>40,016,119</u>	<u>28,564,448</u>
Deductions:		
Distributions to participants	3,542,895	2,105,715
Life insurance premiums	1,230,945	589,392
Administrative expenses, sales charges and asset charges (note 6)	670,249	455,373
	<u>5,444,089</u>	<u>3,150,480</u>
Net additions	34,572,030	25,413,968
Assets available for plan benefits, beginning of year	74,534,603	49,120,635
Assets available for plan benefits, end of year	<u>\$109,106,633</u>	<u>74,534,603</u>

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 1984 and 1983

1. Participants Of The Plan

(a) The Commonwealth Of Massachusetts

The Commonwealth of Massachusetts (the Commonwealth) Employees Deferred Compensation Plan (the Plan) was established pursuant to Chapter 422 of the Acts of 1976. Under the Plan provisions, employees of the Commonwealth and Cities and Towns (note 1(b)) are eligible to contribute into the Plan, through payroll deductions, any amount up to 25% (not to exceed \$7,500) of their annual gross compensation. Amounts contributed by employees are deferred for Federal and state income tax purposes until benefits are paid to the employees. The Commonwealth does not make any contributions to the Plan.

All assets of the Plan are the sole property of the employer (the Commonwealth) and shall be subject to all the claims of the creditors of the employer. The employees' or their beneficiaries' rights are equal to that of a general creditor of the employer and in an amount equal to the value of the deferred account maintained with respect to the individual employee.

Employees electing to contribute to the Plan have the option of investing their contributions in any one or a combination of three investment types:

- Guaranteed fixed annuities underwritten by Nationwide Life Insurance Company.
- Life insurance contracts underwritten by Peoples Life Insurance Company.
- Bank savings contracts with The First National Bank of Boston (prior to March 15, 1984, the contracts were with Newworld Bank).

Employees investing in fixed annuities or bank savings contracts may withdraw the value of funds contributed to the Plan upon termination of employment with the Commonwealth, retirement, death, disability or financial hardship (financial hardship requires Oversight Committee approval if the participant's account value exceeds \$3,500). Employees may select various pay-out options including lump-sum payments and equal annual payments over various periods. Depending upon the option selected, the annual payments may be actuarially determined.

At retirement or termination of employment with the Commonwealth, employees investing in life insurance contracts may continue to make premium payments directly to the insurance carrier or they may receive the cash surrender value of the policies. At the time of the death of an employee, the face value of the insurance contract is payable to the beneficiary.

(b) City, Town or Other Governmental Entity (Cities and Towns)

Provisions of Chapter 731 of the Acts of 1981 (the Act) enabled Cities and Towns of the Commonwealth to establish deferred compensation plans for their employees. The Act also provided the Cities and Towns the option of participating in the Plan of the Commonwealth. The first deferrals of the Cities and Towns who elected to participate in the Plan were made in May, 1983.

During 1984 it was determined that the Cities and Towns which elect to participate in the Plan are a part of, and should be included in the financial statements of the Plan. Accordingly, the 1983 financial statements have been restated to reflect participation of the Cities and Towns. The assets available for plan benefits for the Plan as previously reported of \$74,012,942 at December 31, 1983 were increased by \$521,661 as a result of this restatement.

The following Cities and Towns are participants in the Plan at December 31, 1984 (see note 3 for the related investment amounts):

- *City of Boston
- City of Canton
- City of Dover
- City of New Bedford
- *City of Pittsfield
- Convention Authority
- *Greater New Bedford Regional Vocational High School
- *Lowell Regional Transit
- Massachusetts Port Authority
- *New Bedford Housing Authority
- *Town of Acushnet

- *Town of Bedford
- *Town of Belmont
- *Town of Harvard
- Town of Methuen
- *Town of Raynham
- Town of Sturbridge
- *Town of Sudbury
- *Town of Swampscott
- Town of Watertown
- *Town of Wayland
- *Town of Winthrop
- Worcester

*Joined the Plan during 1984.

The assets and related activity of the deferred compensation programs of the Cities and Towns which have not elected to join the Plan are not included herein. Cities and Towns participating in the Plan may offer other investment options in addition to those offered in the Plan. Accordingly, those assets are not included in the financial statements of the Plan.

2. Summary Of Significant Accounting Policies

(a) Investments Valuation

Investments in units of fixed annuities are valued at the unit values reported by Nationwide Life Insurance Company, which represent contributions received plus interest earned to date less applicable charges and amounts withdrawn. The value of bank savings contracts represents contributions received plus interest earned to date less applicable charges and amounts withdrawn. The cash surrender value of life insurance contracts includes policy cash values plus the balance of the universal life investment fund for universal life policyholders.

(b) Contributions Receivable

Contributions receivable represents amounts withheld from employees but not remitted to investment carriers at December 31.

(c) Interest Income

During 1984, the interest rate credited for fixed annuities ranged from 10.55% to 10.65% (10.5% to 10.65% during 1983) for contributions made prior to January 1, 1982 and from 12% to 12.15% (12.55% to 13.7% during 1983) for contributions made after January 1, 1982.

The assets held in fixed annuities for participants who have annuitized were credited interest based upon reserve assumptions used by Nationwide Life Insurance Company at the participant's annuitization date. These rates ranged from 6.0% to 7.5% during 1984 and 1983, respectively.

Interest rates for bank savings contracts (other than separate passbook accounts which were credited interest at 5.5% through March 15, 1984 when they were combined with accumulation phase bank option assets) were 10.5% from January 1 to June 30, 1984 (7.8% during this period in 1983) and 10.1% from July 1 to December 31, 1984 (10.4% during this period in 1983).

Interest rates for the universal life fund ranged from 11.25% to 12.75% during 1984. This interest is recorded as increase in cash surrender value.

Interest income for all investment options is recorded as earned.

3. Investments

Investments at December 31, were as follows:

	<u>1984</u>	<u>1983</u>
Fixed Annuities	\$103,436,751	\$68,643,737
Bank Savings Contracts	<u>3,493,541</u>	<u>3,186,899</u>
	<u>\$106,930,292</u>	<u>\$71,830,636</u>

Investments of Cities and Towns participating in the plan amounted to \$2,914,365 and \$348,937 at December 31, 1984 and 1983, respectively:

Contributions to bank savings contracts are invested in certificates of deposit.

4. Life Insurance

The amount of life insurance in force was approximately \$104,000,000 and \$62,000,000 at December 31, 1984 and 1983, respectively.

5. Plan Administrator And Plan Coordinator

The Treasurer of the Commonwealth serves as the plan administrator and represents the Commonwealth and Cities and Towns in all matters concerning administration of the Plan.

As of April 5, 1982, the functions of plan coordinator were transferred from PEBSCO/Pilgrim to PEBSCO of Massachusetts Insurance Agency, Inc. (PEBSCO/ Massachusetts) and extended to May 3, 1983. On November 30, 1982, the Commonwealth, PEBSCO/Massachusetts, and the Public Employees Benefit Services Corporation (PEBSCO), parent company of PEBSCO/Massachusetts, entered into an agreement with appointed PEBSCO/Massachusetts as the exclusive plan coordinator for a three-year period commencing May 4, 1983. The agreement is automatically renewed for additional five-year periods unless terminated by any party.

For services performed as plan coordinator, PEBSCO/Massachusetts receives sales commissions directly from the insurance companies in which the participants elect to invest their contributions. No sales commissions were paid by the Newworld Bank or the First National Bank of Boston for contributions invested in bank savings contracts.

PEBSCO and Nationwide Life Insurance Company are subsidiaries of Nationwide Corporation.

6. Administrative Expenses, Sales Charges And Asset Charges

Employee contributions invested in fixed annuities were subject to an annual fee of up to \$12.00 per participant to administer the employee's account and an asset assessment charge equal on an annual basis to .45% of the fixed annuity contract value at year end. This asset assessment charge percentage may decrease if fixed annuity contract value exceeds certain dollar amounts. A 4% deferred sales charge will be assessed on all lump-sum withdrawals of fixed annuities related to contributions made subsequent to January 1, 1979, except death benefit payments, installments of a designated period, and life contingency options. This deferred sales charge percentage declines to zero after 16 years of plan participation which is incurred after January 1, 1984.

Effective March 15, 1984, employee contributions invested in bank savings contracts are subject to the following administrative charges:

- annual management fee of 3/10 of 1% of interest earned,
- annual maintenance fee of \$7.50 per participant, and
- withdrawal charge of \$12.00 if an interim participant value calculation is required.

There are no administrative charges for life insurance contracts.

7. Tax Status

The Plan is an eligible deferred compensation plan as defined by Section 457 of the Internal Revenue Code. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or his beneficiary.

MASS. T1.1/2: 985

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Oversight Committee
Commonwealth of Massachusetts
Employees Deferred
Compensation Plan:

MASSACHUSETTS
DEFERRED COMPENSATION
ANNUAL REPORT—1985

SS 2nd Qtr '86

We have examined the statements of assets available for plan benefits of the Commonwealth of Massachusetts Employees Deferred Compensation Plan (the Plan) as of December 31, 1985 and 1984 and the related statements of changes in assets available for plan benefits for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the assets available for plan benefits of the Plan at December 31, 1985 and 1984 and the changes in those assets for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Columbus, Ohio
April 18, 1986

August 29, 1986

Robert Q. Crane,
Plan Administrator

PUBLISHED TO HELP ALL MASSACHUSETTS STATE
EMPLOYEES STAY BETTER INFORMED ABOUT THEIR
STATE DEFERRED COMPENSATION PROGRAM

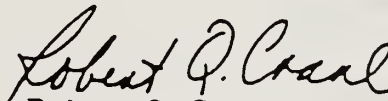
Dear Deferred Compensation Participant,

Enclosed please find the annual report of the Massachusetts Deferred Compensation Plan for the calendar year ended December 31, 1985. As Plan Administrator I am quite pleased at the growth and success of this program.

Included in the report is the annual audit report which has been performed by Peat, Marwick, Mitchell & Co.

Along with the Oversight Committee I promise to pursue continued improvement in the products and services to insure that our program remains one of the best in the nation. Again I encourage your comments and suggestions about the program. Please feel free to communicate your ideas through the offices of the State Treasurer, members of the Deferred Compensation Oversight Committee or to PEBSCO, the Plan Coordinator at (toll free) 1-800-545-4730.

Very truly yours,

A handwritten signature in cursive script that reads "Robert Q. Crane".

Robert Q. Crane

Plan Administrator

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN

Statements of Assets Available
for Plan Benefits

December 31, 1985 and 1984

	1985	1984
Investments (note 3)	\$149,920,393	106,930,292
Contributions receivable	826,524	1,851,398
Cash surrender value of life insurance contracts (note 4)	641,200	324,943
Assets available for plan benefits	<u>\$151,388,117</u>	<u>109,106,633</u>

See accompanying notes to financial statements.

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN

Statements of Changes in Assets Available
for Plan Benefits

Years ended December 31, 1985 and 1984

	1985	1984
Additions:		
Employee contributions	\$ 36,739,176	30,031,677
Interest income	13,566,851	9,786,790
Increase in cash surrender value of life insurance contracts	316,257	197,652
	<u>50,622,284</u>	<u>40,016,119</u>
Deductions:		
Distributions to participants	5,291,669	3,542,895
Life insurance premiums	2,119,827	1,230,945
Administrative expenses, sales charges and asset charges (note 6)	929,304	670,249
	<u>8,340,800</u>	<u>5,444,089</u>
Net additions	42,281,484	34,572,030
Assets available for plan benefits, beginning of year	<u>109,106,633</u>	<u>74,534,603</u>
Assets available for plan benefits, end of year	<u>\$151,388,117</u>	<u>109,106,633</u>

See accompanying notes to financial statements.

COMMONWEALTH OF MASSACHUSETTS EMPLOYEES DEFERRED COMPENSATION PLAN

Notes to Financial Statements

December 31, 1985 and 1984

1. Participants Of The Plan

(a) The Commonwealth Of Massachusetts

The Commonwealth of Massachusetts (the Commonwealth) Employees Deferred Compensation Plan (the Plan) was established pursuant to Chapter 422 of the Acts of 1976. Under the Plan provisions, employees of the Commonwealth and Cities and Towns (note 1(b)) are eligible to contribute into the Plan, through payroll deductions, any amount up to 25% (not to exceed \$7,500) of their annual gross compensation. Amounts contributed by employees are deferred for Federal and state income tax purposes until benefits are paid to the employees. The Commonwealth does not make any contributions to the Plan.

All assets of the Plan are the sole property of the employer and shall be subject to all the claims of the creditors of the employer. The employees' or their beneficiaries' rights are equal to that of a general creditor of the employer and in an amount equal to the value of the deferred account maintained with respect to the individual employee.

Employees electing to contribute to the Plan have the option of investing their contributions in any one or a combination of three investment types:

- Guaranteed fixed annuities underwritten by Nationwide Life Insurance Company.
- Life insurance contracts underwritten by Peoples Security Life Insurance Company.
- Bank savings contracts with The First National Bank of Boston (prior to March 15, 1984, the contracts were with Neworld Bank).

Employees investing in fixed annuities or bank savings contracts may withdraw the value of funds contributed to the Plan upon termination of employment with the Commonwealth, retirement, death, disability, or financial hardship (financial hardship requires Oversight Committee approval if the participant's account value exceeds \$3,500). Employees may select various pay-out options including lump-sum payments or equal annual payments over various periods. Depending upon the option selected, the annual payments may be actuarially determined.

At retirement or termination of employment with the Commonwealth, employees investing in life insurance contracts may continue to make premium payments directly to the insurance carrier or they may receive the cash surrender value of the policies. At the time of the death of an employee, the face value of the insurance contract is payable to the beneficiary.

(b) City, Town or Other Governmental Entity (Cities and Towns)

Provisions of Chapter 731 of the Acts of 1981 (the Act) enabled Cities and Towns of the Commonwealth to establish deferred compensation plans for their employees. The Act also provided the Cities and Towns the option of participating in the Plan of the Commonwealth. The first deferrals of the Cities and Towns that elected to participate in the Plan were made in May, 1983.

During 1984 it was determined that the Cities and Towns which elect to participate in the Plan are a part of, and should be included in the financial statements of the Plan.

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OF THE

AMERICAN PEOPLE

FROM THE FIRST SETTLEMENTS TO THE PRESENT TIME

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The assets and related activity of the deferred compensation programs of the Cities and Towns which have not elected to join the Plan are not included herein. Cities and Towns participating in the Plan may offer other investment options in addition to those offered in the Plan. Accordingly, those assets are not included in the financial statements of the Plan.

2. Summary Of Significant Accounting Policies

(a) Investments Valuation

Investments in units of fixed annuities are valued at the unit values reported by Nationwide Life Insurance Company, which represent contributions received plus interest earned to date less applicable charges and amounts withdrawn. The value of bank savings contracts represents contributions received plus interest earned to date less applicable charges and amounts withdrawn. The cash surrender value of life insurance contracts includes policy cash values plus the balance of the universal life investment fund for universal life policyholders.

(b) Contributions Receivable

Contributions receivable represents amounts withheld from employees but not remitted to investment carriers at December 31.

(c) Interest Income

During 1985, the interest rate credited for fixed annuities was 10.65% (10.55% to 10.65% during 1984) for contributions made prior to January 1, 1982 and from 11.7% to 12.05% (12% to 12.15% during 1984) for contributions made after January 1, 1982.

The assets held in fixed annuities for participants who have annuitized were credited interest based upon reserve assumptions used by Nationwide Life Insurance Company at the participant's annuitization date. These rates ranged from 4.5% to 11.75% during 1985 (6.0% to 7.5% during 1984).

Interest rates for bank savings contracts (other than separate passbook accounts which were credited interest at 5.5% through March 15, 1984 when they were combined with accumulation phase bank option assets) were 10.1% from January 1 to June 30, 1985 (10.5% during this period in 1984) and 8.36% from July 1 to December 31, 1985 (10.1% during this period in 1984).

Interest rates for the universal life fund ranged from 9.38% to 10.75% during 1985 (11.25% to 12.75% during 1984). This interest is recorded as increase in cash surrender value.

Interest income for all investment options is recorded as earned.

3. Investments

Investments at December 31 were as follows:

	<u>1985</u>	<u>1984</u>
Fixed annuities	\$146,194,720	103,436,751
Bank savings contracts	<u>3,725,673</u>	<u>3,493,541</u>
	<u>\$149,920,393</u>	<u>106,930,292</u>

Investments of Cities and Towns participating in the plan amounted to \$8,770,932 and \$2,914,365 at December 31, 1985 and 1984, respectively.

Contributions to bank savings contracts are invested in certificates of deposit.

4. Life Insurance

The amount of life insurance at December 31, 1985

5. Plan Assets

The Treasuries and Common Stocks

On November 30, 1985, the balance of the Plan assets was \$1,398,000,000 for all assets.

For services rendered directly to the Plan, no salary or benefits are paid to the Plan.

PEBSCO

6. Administrative Expenses

Employment per participant is an average of 4% to 6% of the total number of participants.

Effective January 1, 1985, the Plan

7. Tax Status

The Plan is a qualified plan under the Internal Revenue Code and is subject to the provisions of the Tax Reform Act of 1986.

APO-738

4. Life Insurance

The amount of life insurance in force was approximately \$205,000,000 and \$104,000,000 at December 31, 1985 and 1984, respectively.

5. Plan Administrator and Plan Coordinator

The Treasurer of the Commonwealth serves as the plan administrator and represents the Commonwealth and Cities and Towns in all matters concerning administration of the Plan.

On November 30, 1982, the Commonwealth, PEBSCO/Massachusetts, and the Public Employees Benefit Services Corporation (PEBSCO), parent company of PEBSCO/Massachusetts, entered into an agreement which appointed PEBSCO/Massachusetts as the exclusive plan coordinator for a three-year period commencing May 4, 1983, and being automatically renewed for additional five-year periods unless terminated by any party. The agreement was amended, effective November 3, 1985 and commencing on May 4, 1986, to state that the agreement will be automatically renewed for additional three-year periods unless terminated by any party.

For services performed as plan coordinator, PEBSCO/Massachusetts receives sales commissions directly from the insurance companies in which the participants elect to invest their contributions. No sales commissions are paid by the First National Bank of Boston for contributions invested in bank savings contracts.

PEBSCO and Nationwide Life Insurance Company are subsidiaries of Nationwide Corporation.

6. Administrative Expenses, Sales Charges And Asset Charges

Employee contributions invested in fixed annuities were subject to an annual fee of up to \$12.00 per participant to administer the employee's account and an asset assessment charge equal on an annual basis to .45% of the fixed annuity contract value at year end. This asset assessment charge percentage may decrease if fixed annuity contract value exceeds certain dollar amounts. A 4% deferred sales charge will be assessed on all lump-sum withdrawals of fixed annuities related to contributions made subsequent to January 1, 1979, except death benefit payments, installments of a designated period, and life contingency options. This deferred sales charge percentage declines to zero after 16 years of plan participation which is effective after January 1, 1984.

Effective March 15, 1984, employee contributions invested in bank savings contracts are subject to the following administrative charges:

- annual management fee of 3/10 of 1% of interest earned,
- annual maintenance fee of \$7.50 per participant, and
- withdrawal charge of \$12.00 if an interim participant value calculation is required.

There are no administrative charges for life insurance contracts.

7. Tax Status

The Plan is an eligible deferred compensation plan as defined by Section 457 of the Internal Revenue Code. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or his beneficiary.

MASS. T1.1/2:986

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THE COMMONWEALTH OF
MASSACHUSETTS
DEFERRED COMPENSATION
ANNUAL REPORT
1986

PUBLISHED TO HELP ALL MASSACHUSETTS STATE
EMPLOYEES STAY BETTER INFORMED ABOUT THEIR
STATE DEFERRED COMPENSATION PROGRAM



Robert Q. Crane,
Plan Administrator

June 30, 1987

Dear Deferred Compensation Plan Participant:

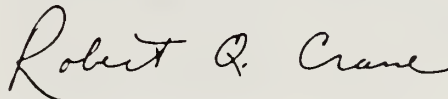
I am pleased to provide you with the current report of your Plan account. You and I are among the almost 28,000 state, county, and municipal employees who have approximately \$210 million invested in this very successful program. The Plan's dual advantages of investing pre-tax dollars and earning tax-deferred interest have become much more attractive as the result of the U.S. Tax Reform Act of 1986. Beginning in January, 1987, many IRA investors lost part, if not all, of their ability to make pre-tax contributions to Individual Retirement Accounts.

However, our Plan's advantages are retained in full. You may still defer as much as 25% of your government salary (to a maximum of \$7,500) every year and continue to enjoy the benefit of current tax deductions—both State and Federal.

As you plan for your future financial security you might wish to consider increased deferrals under our Plan. As we begin our tenth year, I am very proud of our record of achievement.

In conjunction with the Oversight Committee I will maintain our commitment to ensuring that our Plan is one of the best available.

Sincerely,

A handwritten signature in cursive script that reads "Robert Q. Crane". The signature is written in dark ink and is positioned above the printed name and title.

Robert Q. Crane
Plan Administrator

TABLE OF CONTENTS

DEFERRED COMPENSATION OVERSIGHT COMMITTEE	3
MASSACHUSETTS DEFERRED COMPENSATION PLAN	3
FUND-TO-FUND TRANSFERS	4
DEFERRED COMPENSATION CUSTOMER SERVICE	5
DEFERRED COMPENSATION INVESTMENT COMPARISON	6-7
1986 DEFERRED COMPENSATION ANNUAL REPORT	8-17

YOUR PLAN'S OVERSIGHT COMMITTEE AND ITS ROLE

The Commonwealth of Massachusetts Oversight Committee is charged with the responsibility of overseeing the State Deferred Compensation Plan.

Make-up of the Oversight Committee, as defined by statute, includes three people: one appointed by the Governor; one appointed by the State Treasurer; and one appointed by the State Insurance Commissioner.

The Oversight Committee oversees the Plan and makes recommendations to the Plan Administrator when appropriate.

MASSACHUSETTS PLAN ONE OF LARGEST IN AMERICA

The Commonwealth of Massachusetts Deferred Compensation Plan was first offered to state employees in 1977. It has experienced substantial growth, both in terms of Plan assets and the number of state employees who are participating.

As of June 30, 1987, approximately 28,000 state employees were participating in the Plan. Plan assets totalled nearly \$210 million. These figures suggest that the Massachusetts Deferred Compensation Plan is one of the largest of its kind in the nation.

The most important purpose of the Plan is to provide state employees the opportunity to accumulate tax-deferred income for their retirement years.

You can be proud to be a participant in the Massachusetts Plan!

FUND-TO-FUND TRANSFERS
APPROVED BY
OVERSIGHT COMMITTEE

The Oversight Committee recently recommended approval of fund-to-fund transfers for Commonwealth of Massachusetts Deferred Compensation participants. These transfers were approved by the Plan Administrator. PEBSCO is working with the product providers to install this feature.

A fund-to-fund transfer means you can "move" part or all of your account balance from one investment option to another investment option under the Plan.

For example, a participant can now transfer or "move" \$100* from the Nationwide Fixed Annuity option to the Bank of Boston Savings option, or vice versa. In some instances, a participant can transfer his or her cash value from Peoples Security Life to the Savings and/or Annuity investment options.

Transfers are subject to contractual provisions and account balances at the time of request. Certain fees and/or charges may apply to amounts transferred.

Contact your local PEBSCO deferred compensation representative at the Salem, Massachusetts office for complete details on fund-to-fund transfers and the date you can begin using this new feature.

*Example only for purposes of illustration.

DEFERRED COMPENSATION
CUSTOMER SERVICE
SALEM, MASSACHUSETTS
COLUMBUS, OHIO

PEBSCO, your Plan Coordinator, has two offices to serve Commonwealth of Massachusetts Deferred Compensation participants—one in Salem, Massachusetts, and one in Columbus, Ohio. Each office is equipped with a toll-free telephone number and a staff of trained professionals to answer your questions.

PEBSCO's regional office, located in Salem, Massachusetts, is open during normal business hours (8:30 a.m.-5:00 p.m.) to assist public employees with deferred compensation-related issues.

PEBSCO's home office is located in Columbus, Ohio. The Columbus Customer Service Center is available during normal business hours (8:00 a.m.-4:30 p.m.) to answer questions and provide prompt service to Plan participants.

Certain questions, such as those relating to fund-to-fund transfers, should be directed to the Salem office. Other questions, such as account balance inquiries or changes to your account records, should be directed to the Columbus office.

Listed below are the toll-free numbers for each office, and a guide to help you determine the correct office to phone depending upon the nature of your question(s).

Salem, Massachusetts 1-800-732-3760 (617) 741-0850	Columbus, Ohio 1-800-545-4730
•Deferral increases/decreases	•Account balance inquiries
•Fund-To-Fund transfers	•Beneficiary designation changes
•General information about the Plan: rules, regulations, etc.	•Payout requests: termination, retirement, death, financial hardship
•Information about the investment options	•Account record changes: name, address, Social Security Number
•Current interest rates	•Current interest rates
•Cancellations	•Benefit payment inquiries
	•Statement inquiries

If you're not sure which office you should call, phone the Salem office.

**COMMONWEALTH OF
MASSACHUSETTS
DEFERRED COMPENSATION
INVESTMENT COMPARISON
REPORT**

The following schedule is a rate of return comparison. The Nationwide Fixed Annuity option and the Bank of Boston Savings option interest rates for the years 1986 and 1985 are compared to U.S. Treasury Security rates of return (various lengths of maturity) for the same years.

Considering the investment policies and contractual liquidity provisions, one would expect the fixed fund rates of return of a typical insurance carrier to be comparable to Treasury Securities with three to ten-year maturities.

RATE OF RETURN COMPARISON

TREASURY SECURITIES

- 1-Year
- 3-Year
- 5-Year
- 10-Year

• NATIONWIDE FIXED ANNUITY OPTION

- Deposits prior to 1/1/82
- Deposits on and after 1/1/82

•• BANK OF BOSTON SAVINGS OPTION

*Interest Rates DO NOT reflect the deduction of the annual asset fee—.44% for 1986/.45% for 1985
 **Interest Rates are computed semi-annually and DO NOT reflect the deduction of the .3% annual management fee

	-1986-				-1985-			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
TREASURY SECURITIES								
• 1-Year	5.80%	5.99%	6.61%	7.46%	7.86%	7.99%	8.47%	9.31%
• 3-Year	6.48%	6.66%	7.18%	7.94%	8.84%	9.29%	9.76%	10.61%
• 5-Year	6.75%	6.93%	7.40%	8.16%	9.23%	9.77%	10.32%	11.11%
• 10-Year	7.26%	7.31%	8.17%	8.56%	9.76%	10.34%	10.81%	11.53%
• NATIONWIDE FIXED ANNUITY OPTION								
• Deposits prior to 1/1/82	10.60%	10.60%	10.60%	10.75%	10.65%	10.65%	10.65%	10.65%
• Deposits on and after 1/1/82	10.75%	10.75%	11.00%	11.45%	11.70%	11.85%	11.80%	12.01%
•• BANK OF BOSTON SAVINGS OPTION								
*Interest Rates DO NOT reflect the deduction of the annual asset fee—.44% for 1986/.45% for 1985	— 5.75%	—	— 7.14%	—	— 8.36%	—	— 10.10%	—

The 1987 interest guarantees under the Nationwide Fixed Annuity option are as follows:

Interest Rates*

1987 Annual Minimum	9.15%
1st Quarter 1987	10.25%
2nd Quarter 1987	10.00%
3rd Quarter 1987	9.85%

*Interest Rates apply to all deposits (old and new) and DO NOT reflect the deduction of the .44% annual asset fee.

The Bank of Boston declares its interest rates semi-annually and on a retrospective basis.

The interest rate for the first 6 months of 1987 was not available in time for the printing of this publication

Contact your local PERSCO deferred compensation representative in the Salem regional office for the interest rate. Phone toll-free in state at 1-800-732-3760.

**COMMONWEALTH OF
MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN**

**Financial Statements
December 31, 1986 and 1985
(With Auditors' Report Thereon)**

**The Oversight Committee
of the
Commonwealth of Massachusetts
Employees
Deferred Compensation Plan:**

We have examined the statements of net assets available for plan benefits of the Commonwealth of Massachusetts Employees Deferred Compensation Plan (the Plan) as of December 31, 1986 and 1985 and the related statements of changes in net assets available for plan benefits for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the net assets available for plan benefits of the Plan at December 31, 1986 and 1985 and the changes in net assets available for plan benefits for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat Marwick Main & Co.

April 10, 1987

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN

Statements of Net Assets Available
for Plan Benefits

December 31, 1986 and 1985

	1986	1985
Assets:		
Investments (note 3)	\$201,505,320	149,920,393
Contributions receivable	2,309,578	826,524
Cash surrender value of life insurance contracts (note 4)	1,587,995	641,200
Total assets	205,402,893	151,388,117
Accounts payable	87,511	—
Net assets available for plan benefits	<u>\$205,315,382</u>	<u>151,388,117</u>

See accompanying notes to financial statements.

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN

Statements of Changes in Net Assets
Available for Plan Benefits

Years ended December 31, 1986 and 1985

	1986	1985
Additions:		
Employee contributions	\$ 47,643,672	36,739,176
Interest income	17,533,609	13,566,851
Increase in cash surrender value of life insurance contracts	946,795	316,257
	<u>66,124,076</u>	<u>50,622,284</u>
Deductions:		
Distributions to participants	7,555,546	5,291,669
Life insurance premiums	3,442,030	2,119,827
Administrative expenses, sales charges and asset charges (note 6)	1,199,235	929,304
	<u>12,196,811</u>	<u>8,340,800</u>
Net additions	53,927,265	42,281,484
Net assets available for plan benefits, beginning of year	<u>151,388,117</u>	<u>109,106,633</u>
Net assets available for plan benefits, end of year	<u>\$205,315,382</u>	<u>151,388,117</u>

See accompanying notes to financial statements.

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN

Notes to Financial Statements

December 31, 1986 and 1985

(1) Participants of the Plan

(a) The Commonwealth of
Massachusetts

The Commonwealth of Massachusetts (the Commonwealth) Employees Deferred Compensation Plan (the Plan) was established pursuant to Chapter 422 of the Acts of 1976. Under the Plan provisions, employees of the Commonwealth and Cities and Towns (note 1(b)) are eligible to contribute into the Plan, through payroll deductions, any amount up to 25% (not to exceed \$7,500) of their annual gross compensation. Amounts contributed by employees are deferred for Federal and state income tax purposes until benefits are paid to the employees. The Commonwealth does not make any contributions to the Plan.

All assets of the Plan are the sole property of the employer and shall be subject to all the claims of the creditors of the employer. The employees' or their beneficiaries' rights are equal to that of a general creditor of the employer and in an amount equal to the value of the deferred account maintained with respect to the individual employee.

Employees electing to contribute to the Plan have the option of investing their contributions in any one or a combination of three investment types:

- Fixed annuities underwritten by Nationwide Life Insurance Company.
- Life insurance contracts underwritten by Peoples Security Life Insurance Company.
- Bank savings contracts with The First National Bank of Boston (prior to March 15, 1985, the contracts were with Newworld Bank).

Employees investing in fixed annuities or bank savings contracts may withdraw the value of funds contributed to the Plan upon termination of employment, retirement, death, disability or financial hardship (financial hardship requires Oversight Committee approval if the participant's account value exceeds \$3,500). Employees may select various pay-out options including lump-sum payments or equal annual payments over various periods. Depending upon the option selected, the annual payments may be actuarially determined.

At retirement or termination of employment, employees investing in life insurance contracts may continue to make premium payments directly to the insurance carrier or they may receive the cash surrender value of the policies. At the time of the death of an employee, the face value of the insurance contract is payable to the beneficiary.

(b) City, Town or Other Governmental Entity (Cities and Towns)

Provisions of Chapter 731 of the Acts of 1981 (the Act) enabled Cities and Towns of the Commonwealth to establish deferred compensation plans for their employees. The Act also provided the Cities and Towns

(continued)

the option of participating in the Plan of the Commonwealth. The Cities and Towns which elect to participate in the Plan are a part of, and are included in the financial statements of the Plan.

The assets and related activity of the deferred compensation programs of the Cities and Towns which have not elected to join the Plan are not included herein. Cities and Towns participating in the Plan may offer other investment options in addition to those offered in the Plan. Accordingly, those assets are not included in the financial statements of the Plan.

(2) Summary of Significant Accounting Policies

(a) Investments Valuation

Investments in units of fixed annuities are valued at the unit values reported by Nationwide Life Insurance Company, which represent contributions received plus interest earned to date less applicable charges and amounts withdrawn. The value of bank savings contracts represents contributions received plus interest earned to date less applicable charges and amounts withdrawn. The cash surrender value of life insurance contracts includes policy cash values plus the balance of the universal life investment fund for universal life policyholders.

(b) Contributions Receivable

Contributions receivable represents amounts withheld from employees but not remitted to investment carriers at December 31.

(c) Interest Income

During 1986, the interest rate credited for fixed annuities was 10.60% to 10.75% (10.65% during 1985) for

contributions made prior to January 1, 1982 and from 10.75% to 11.45% (11.70% to 12.05% during 1985) for contributions made after January 1, 1982.

The assets held in fixed annuities for participants who have annuitized were credited interest based upon reserve assumptions used by Nationwide Life Insurance Company at the participant's annuitization date. These rates ranged from 2.50% to 11.25% during 1986 (4.50% to 11.75% during 1985).

Interest rates for bank savings contracts were 7.14% from January 1 to June 30, 1986 (10.10% during this period in 1985) and 5.75% from July 1 to December 31, 1986 (8.36% during this period in 1985).

Interest rates for the universal life fund ranged from 7.25% to 9.00% during 1986 (9.38% to 10.75% during 1985). This interest is recorded as an increase in cash surrender value.

Interest income for all investment options is recorded as earned.

(3) Investments

Investments at December 31 were as follows:

	1986	1985
Fixed annuities	\$197,577,374	146,194,720
Bank savings contracts	3,927,946	3,725,673
	<u>\$201,505,320</u>	<u>149,920,393</u>

Investments of Cities and Towns participating in the plan amounted to \$20,878,805 and \$8,770,932 at December 31, 1986 and 1985, respectively.

Contributions to bank savings contracts are invested in certificates of deposit and U.S. Government securities.

(continued)

(4) Life Insurance

The amount of life insurance in force was approximately \$335,000,000 and \$205,000,000 at December 31, 1986 and 1985, respectively.

(5) Plan Administrator and Plan Coordinator

The Treasurer of the Commonwealth serves as the plan administrator and represents the Commonwealth and Cities and Towns in all matters concerning administration of the Plan.

On November 30, 1982, the Commonwealth, PEBSCO/Massachusetts, and the Public Employees Benefit Services Corporation (PEBSCO), parent company of PEBSCO/Massachusetts, entered into an agreement which appointed PEBSCO/Massachusetts as the exclusive plan coordinator for a three-year period commencing May 4, 1983, and being automatically renewed for additional five-year periods unless terminated by any party. The agreement was amended, effective November 3, 1985 and commencing on May 4, 1986, to state that the agreement will be automatically renewed for additional three-year periods unless terminated by any party.

For services performed as plan coordinator, PEBSCO/Massachusetts receives sales commissions directly from the insurance companies in which the participants elect to invest their contributions. No sales commissions are paid by the First National Bank of Boston for contributions invested in bank savings contracts.

PEBSCO and Nationwide Life Insurance Company are subsidiaries of Nationwide Corporation.

and Asset Charges

Employee contributions invested in fixed annuities were subject to an annual fee of up to \$12.00 per participant to administer the employee's account and an asset assessment charge equal to an annual rate of .45% of the fixed annuity contract value at year end. This asset assessment charge percentage may decrease if fixed annuity contract value exceeds certain dollar amounts. A 4% deferred sales charge will be assessed on all lump-sum withdrawals of fixed annuities related to contributions made subsequent to January 1, 1979, except death benefit payments, installments of a designated period, and life contingency options. This deferred sales charge percentage declines to zero after 16 years of plan participation which is effective after January 1, 1984.

Employee contributions invested in bank savings contracts are subject to the following administrative charges:

- annual management fee of 3/10 of 1% of interest earned,
- annual maintenance fee of \$7.50 per participant, and
- withdrawal charge of \$12.00 if an interim participant value calculation is required.

There are no administrative charges for life insurance contracts.

(7) Tax Status

The Plan is an eligible deferred compensation plan as defined by Section 457 of the Internal Revenue Code. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or his beneficiary.

MASS. T1.1/2: 987

**THE COMMONWEALTH OF
MASSACHUSETTS
DEFERRED COMPENSATION
ANNUAL REPORT
1987**

PUBLISHED TO HELP ALL MASSACHUSETTS STATE
EMPLOYEES STAY BETTER INFORMED ABOUT THEIR
STATE DEFERRED COMPENSATION PROGRAM

GOVERNMENT DOCUMENTS
COLLECTION

NOV 8 1993

University of Massachusetts
Library Copy



Robert Q. Crane,
Plan Administrator

NOVEMBER 1, 1988

COMMONWEALTH'S DEFERRED COMPENSATION PLAN STILL GROWING

TABLE OF CONTENTS

DEFERRED COMPENSATION PLAN STILL GROWING	1-2
NEW TELEPHONE AREA CODE FOR PEBSCO	2
FIXED INTEREST OPTION CHANGES	3-4
LIFE INSURANCE OPTION	4
CHANGE IN SAVINGS OPTION	5
NEW PAYOUT OPTION	5-6
1986 TRA IMPACTS DEFERRED COMPENSATION	6
INVESTMENT COMPARISON REPORT	7-8
1987 DEFERRED COMPENSATION ANNUAL REPORT	9-20

The following people review the day to day operations and activities of the Plan to ensure that participants are provided competitive investment options and quality service:

Robert Q. Crane
Plan Administrator and Treasurer of the
Commonwealth of Massachusetts

Santo P. Pasqualucci
Oversight Committee
[appointed by the Governor]

Richard V. Kelly
Oversight Committee
[appointed by the State Treasurer]

Susan K. Scott
Oversight Committee
[appointed by the State Insurance
Commissioner]

The Commonwealth of Massachusetts has one of the finest Deferred Compensation Plans available in the United States and it continues to experience substantial growth.

Dramatic increases in the levels of participation and assets clearly demonstrate the Plan's popularity. The Commonwealth's Deferred Compensation Plan is becoming more widely recognized as a valuable means of saving for retirement on a tax-deferred basis.

- ▶ Employee participation in the Plan topped the 30,000 mark as of December 31, 1987, representing a 50% jump from the 20,000 employees who were participating at the end of 1985.
- ▶ The number of public entities participating in the Commonwealth's Plan rose to 165 as of December 31, 1987, compared to 110 on the same date in 1986.
- ▶ Plan assets climbed to an all-time high of \$259 million on December 31, 1987. This reflects an increase of \$115 million over the past two years.

NEW TELEPHONE AREA CODE FOR LOCAL PEBSCO OFFICE

Effective July 15, 1988, the new area code for PEBSCO's regional office in Salem, Massachusetts is "508." This number replaces the former "617" area code.

Please make a note of this important change, and feel free to write or phone the PEBSCO office in Salem if you have any questions about your deferred compensation program.

PEBSCO
One Salem Green, Suite 410
Salem, Massachusetts 01970
508) 741-0850 or 1-800-732-3760

NEW CHANGES FOR THE FIXED INTEREST OPTION

- ▶ The addition of a new "Fixed Time Period" retirement payout option—see related story on page 5.
- ▶ A change in the Deferred Sales Charge structure.

You may be assessed a Contingent Deferred Sales Charge (CDSC) if you withdraw part or all of your account value from the Fixed Interest Option. It depends upon the number of years you have participated in Nationwide's Fixed option AND the manner in which you elect to receive your payment[s].

The previous Nationwide contract used January 1, 1984, as the beginning date for counting years of participation credited toward the declining sales charges. The NEW Nationwide contract credits years of participation beginning January 1, 1979. In effect, Nationwide has added five years to your participation credit IF you have participated in the Fixed Interest Option since January 1, 1979.

You will not be assessed a deferred sales charge if you have participated in the Fixed Interest Option for 5 years and you have a distribution for the following reasons:

1. Unforeseeable Financial Emergency
2. Retirement
3. Leave State Service

If you choose to move your assets to another investment (bank) or protection option (life insurance), or transfer to another 457 plan, the following deferred sales charge schedule will be used:

YEARS OF PARTICIPATION BEGINNING WITH JAN. 1, 1979	CONTINGENT DEFERRED SALES CHARGE
0-12	4%
13	3%
14	2%
15	1%
16 and more	0%

- The reduction of the annual asset fee

The annual asset fee is determined according to the amount of Plan assets that are held with Nationwide. As the assets of the Commonwealth's Deferred Compensation Plan grow in Nationwide's Fixed Interest Option, the asset fee decreases.

Based in Columbus, Ohio, Nationwide Life Insurance Company is ranked among the 35 largest stock life insurance companies in the nation. More than 250,000 deferred compensation participants throughout the United States have elected to invest their deferrals with Nationwide. The Company currently manages over \$2 billion in deferred compensation assets, making it the leading deferred compensation investment underwriter in the country.

LIFE INSURANCE OPTION

The universal life option continues to gain popularity among deferred compensation participants in Massachusetts and across the nation. Here are some important reminders of how survivorship protection can benefit you and your loved ones.

- Your premiums are paid with before-tax dollars.
- You provide immediate financial protection to your surviving beneficiary[s] in the event of your death.
- Your premiums go to work for you immediately—building cash value.
- Your cash value earns current, competitive interest rates.
- You can direct up to 25% of your deferrals each pay period to purchase this affordable life insurance protection.

Phone your local PEBSCO representative at the Salem, Massachusetts office today to learn more about universal life insurance protection:
[508] 741-0850 or 1-800-732-3760.

CHANGE IN SAVINGS OPTION PROVIDERS

The Boston Safe Deposit and Trust Company was chosen to replace the Bank of Boston as the Savings Option provider for your deferred compensation plan. This change was effective January 1, 1988.

The new Savings Option is comprised of high-quality money market instruments that provide a combination of safety, maximum liquidity, and a competitive return on your investments.

NEW RETIREMENT PAYOUT OPTION

As part of the recent contract enhancements, Nationwide Life Insurance Company is offering a new retirement payout option to you. It's called the Fixed Time Period payout option.

As the name suggests, this option provides payments that last for a specified or "Fixed" period of time. You decide "how often" (monthly, quarterly, semi-annually, or annually) and "over how many years" you want to receive payments.

This retirement payout option offers several advantages over most payout options.

- You will continue to earn the same current, competitive interest rates that you earned while you were actively deferring your contributions to the Fixed Interest Option.
- The dollar amount of each payment you receive will increase based on the changing interest rates.
- These current interest rates may provide you with a larger benefit, in total, than you could achieve if you were to "purchase" an annuity with a "locked-in" interest rate.

If you die before the end of the Fixed Time Period, your beneficiary will continue to receive payments until the fixed period ends.

It is important to note that if you elect this option you will continue to be assessed the annual asset fee and annual administrative charge while you are receiving your payout.

PLEASE BE CAREFUL TO EVALUATE THE FEATURES OF EACH PAYOUT OPTION BEFORE YOU MAKE A DECISION CONCERNING HOW YOU WANT TO RECEIVE YOUR RETIREMENT BENEFITS. THE OPTION YOU SELECT SHOULD FIT YOUR PERSONAL FINANCIAL SITUATION AND LONG-TERM NEEDS.

If you have questions about the various payout options that are available to you at retirement, contact the PEBSCO office in Salem, Massachusetts at (508) 741-0850 or 1-800-732-3760.

1986 TAX REFORM ACT IMPACTS DEFERRED COMPENSATION IN 1989

The most significant impact that the 1986 Tax Reform Act had on deferred compensation plans relates to distribution requirements. You haven't heard a great deal about these provisions since they don't take effect until January 1, 1989. The changes and how they affect you as a deferred compensation participant are:

- Distributions must begin no later than April 1st of the year following the year in which you reach age 70½.

This rule applies if you have left State-City service. If you are approaching age 70½ and intend to retire, you should talk with your local PEBSCO representative to discuss the payout options that are available to you.

- Distributions must be paid to you so that you are expected to receive at least $\frac{2}{3}$ of your account value over your expected lifetime.

Amounts not distributed according to the new rules will be subject to a 50% non-deductible excise tax. For more information about this stiff penalty, contact your local PEBSCO representative.

COMMONWEALTH OF MASSACHUSETTS DEFERRED COMPENSATION INVESTMENT COMPARISON REPORT OF THE NATIONWIDE FIXED INTEREST OPTION

The following schedule is a rate of return comparison. The Nationwide Fixed Interest Option interest rates for the years 1987 and 1986 are compared to U.S. Treasury Security rates of return (various lengths of maturity) for the same years.

Considering the investment policies and contractual liquidity provisions, one would expect the fixed fund rates of return of a typical insurance carrier to be comparable to Treasury Securities with three to ten-year maturities.

COMMONWEALTH OF MASSACHUSETTS EMPLOYEES DEFERRED COMPENSATION PLAN

Financial Statements
December 31, 1987 and 1986
[With Independent Auditors'
Report Thereon]

	-1987-				-1986-			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Treasury Securities								
• 1-Year	7.24%	7.13%	6.77%	5.92%	5.80%	5.99%	6.61%	7.46%
• 3-Year	8.29%	8.15%	7.72%	6.52%	6.48%	6.66%	7.18%	7.94%
• 5-Year	8.63%	8.42%	7.95%	6.74%	6.75%	6.93%	7.40%	8.16%
• 10-Year	9.12%	8.88%	8.34%	7.19%	7.26%	7.31%	8.17%	8.56%
• Nationwide Fixed Interest Option								
• Deposits prior to 1/1/82	9.65%	9.85%	10.00%	10.25%	10.60%	10.60%	10.60%	10.75%
• Deposits on and after 1/1/82	9.65%	9.85%	10.00%	10.25%	10.75%	10.75%	11.00%	11.45%
*Interest Rates DO NOT reflect the deduction of the annual asset fee. .43% for 1987/.44% for 1986								

The 1988 interest guarantees under the Nationwide Fixed Interest Option are as follows:

INTEREST RATE*

1988 Annual Minimum	9.00%
1st Quarter 1988	9.65%
2nd Quarter 1988	9.60%
3rd Quarter 1988	9.50%
4th Quarter 1988	9.40%

*Interest rates apply to all deposits (old AND new) and DO NOT reflect the deduction of the .39% annual asset fee.

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1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
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Independent Auditors' Report

COMMONWEALTH OF MASSACHUSETTS EMPLOYEES DEFERRED COMPENSATION PLAN

Mr. Robert Q. Crane, Plan Administrator
Commonwealth of Massachusetts
Employees Deferred Compensation Plan:

Statements of Net Assets Available for Plan Benefits

December 31, 1987 and 1986

	<u>1987</u>	<u>1986</u>
Assets:		
Investments (note 3)	\$269,832,356	201,505,320
Contributions receivable	4,038,886	2,309,578
Cash surrender value of life insurance contracts (note 4)	<u>4,160,026</u>	<u>1,587,995</u>
Total assets	278,031,268	205,402,893
Accounts payable	<u>—</u>	<u>87,511</u>
Net assets available for plan benefits	<u>\$278,031,268</u>	<u>205,315,382</u>

See accompanying notes to financial statements.

We have audited the accompanying statements of net assets available for plan benefits of the Commonwealth of Massachusetts Employees Deferred Compensation Plan (the Plan) as of December 31, 1987 and 1986 and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits at December 31, 1987 and 1986 and the changes in net assets available for plan benefits for the years then ended, in conformity with generally accepted accounting principles.

Peat Marwick Main & Co.

August 31, 1988

**COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN**

**Statements of Changes in Net Assets
Available for Plan Benefits**

Years ended December 31, 1987 and 1986

	<u>1987</u>	<u>1986</u>
Additions:		
Employee contributions	\$ 64,000,514	47,643,672
Interest income	21,621,983	17,533,609
Increase in cash surrender value of life insurance contracts	2,572,031	946,795
	<u>88,194,528</u>	<u>66,124,076</u>
Deductions:		
Distributions to participants	9,488,330	7,555,546
Life insurance premiums	4,421,021	3,442,030
Administrative expenses, sales charges and asset charges (note 6)	1,569,291	1,199,235
	<u>15,478,642</u>	<u>12,196,811</u>
Net additions	72,715,886	53,927,265
Net assets available for plan benefits, beginning of year	<u>205,315,382</u>	<u>151,388,117</u>
Net assets available for plan benefits, end of year	<u>\$278,031,268</u>	<u>205,315,382</u>

See accompanying notes to financial statements.

**COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN**

Notes to Financial Statements

December 31, 1987 and 1986

[1] Participants of the Plan

[a] The Commonwealth of Massachusetts

The Commonwealth of Massachusetts [the Commonwealth] Employees Deferred Compensation Plan [the Plan] was established pursuant to Chapter 422 of the Acts of 1976. Under the Plan provisions, employees of the Commonwealth and Cities and Towns [note 1(b)] are eligible to contribute into the Plan, through payroll deductions, any amount up to 25% [not to exceed \$7,500] of their annual gross compensation. Amounts contributed by employees are deferred for Federal and state income tax purposes until benefits are paid to the employees. The Commonwealth does not make any contributions to the Plan.

All assets of the Plan are the sole property of the employer [the Commonwealth] and shall be subject to all the claims of the creditors of the employer. The employees' or their beneficiaries' rights are equal to that of a general creditor of the employer and in an amount equal to the value of the deferred account maintained with respect to the individual employee.

Employees electing to contribute to the Plan have the option of investing their contributions in the following three investment types:

- Fixed annuities underwritten by Nationwide Life Insurance Company.
- Universal life insurance contracts underwritten by Peoples Security Life Insurance Company.

[continued]

**COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN**

Notes to Financial Statements (continued)

- Bank savings option with Boston Safe Deposit and Trust Company [Boston Safe] beginning December 15, 1987.
- Bank savings option with The Bank of Boston from March 15, 1985 to December 14, 1987.

Employees investing in fixed annuities or bank savings contracts may, subject to the second preceding paragraph, withdraw the value of funds contributed to the Plan upon termination of employment, retirement, death, disability or financial hardship [financial hardship requires Oversight Committee approval if the participant's account value exceeds \$3,500]. Employees may select various payout options including lump-sum payments or payments over various periods. Depending upon the option selected, the payments may be actuarially determined.

At retirement or termination of employment, employees investing in life insurance contracts may continue to make premium payments directly to the insurance carrier or they may receive the cash surrender value of the policies. At the time of the death of an employee, the face value of the insurance contract is payable to the beneficiary.

(b) City, Town or Other Governmental Entity (Cities and Towns)

Provisions of Chapter 731 of the Acts of 1981 [the Act] enabled Cities and Towns of the Commonwealth to establish deferred compensation plans for their employees. The Act also provided the Cities and Towns the

**COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN**

Notes to Financial Statements (continued)

option of participating in the Plan of the Commonwealth. Only the Cities and Towns which elect to participate in the Plan and only the investment options provided thereunder are a part of, and are included in the financial statements of the Plan.

(2) Summary of Significant Accounting Policies

(a) Investments Valuation

Investments in units of fixed annuities are valued at the unit values reported by Nationwide Life Insurance Company, which represent contributions received plus interest earned to date less applicable charges and amounts withdrawn. The value of the bank savings option represents contributions received plus interest earned to date less applicable charges and amounts withdrawn. The cash surrender value of life insurance contracts includes policy cash values plus the balance of the universal life investment fund for universal life policyholders.

(b) Contributions Receivable

Contributions receivable represents amounts withheld from employees but not remitted to investment carriers at December 31.

(c) Interest Income

The following table summarizes interest rates credited on fixed annuities. These interest rates are before the asset assessment charge discussed in note 6.

(continued)

**COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN**

Notes to Financial Statements (continued)

	<u>Contribution made:</u>	
	<u>On or after January 1, 1982</u>	<u>Before January 1, 1982</u>
Interest rate at December 31, 1987	9.65%	9.65%
Range of interest rates during 1987	9.65% to 10.25%	9.65% to 10.25%
Interest rate at December 31, 1986	10.75%	10.60%
Range of interest rates during 1986	10.75% to 11.45%	10.60% to 10.75%

The assets held in fixed annuities for participants who have annuitized were credited interest based upon reserve assumptions used by Nationwide Life Insurance Company at the participant's annuitization date. These annuitization rates ranged from 2.50% to 11.25% during 1987 and 1986.

Interest rates for bank savings investments were 6.00% from January 1 to June 30, 1987 [7.14% during this period in 1986] and 6.25% from July 1 to December 31, 1987 [5.75% during this period in 1986].

Interest rate for the universal life fund was 8.50% at December 31, 1987 [9.00% at December 31, 1986] and ranged from 7.00% to 9.00% during 1987 [7.25% to 9.00% during 1986]. This interest is recorded as an increase in cash surrender value.

Interest income for all investment options is recorded as earned on the accrual basis.

**COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN**

Notes to Financial Statements (continued)

[3] Investments

Investments at December 31 were as follows:

	<u>1987</u>	<u>1986</u>
Fixed annuities	\$265,799,107	197,577,374
Bank savings option	4,033,249	3,927,946
	<u>\$269,832,356</u>	<u>201,505,320</u>

Investments of Cities and Towns participating in the plan amounted to \$39,449,974 and \$20,878,805 at December 31, 1987 and 1986, respectively.

Contributions to the bank savings option are invested in certificates of deposit and U.S. Government securities.

[4] Life Insurance

The amount of life insurance in force was approximately \$558,000,000 and \$351,000,000 at December 31, 1987 and 1986, respectively.

**[5] Plan Administrator and
Plan Coordinator**

The Treasurer of the Commonwealth serves as the plan administrator and represents the Commonwealth and Cities and Towns in all matters concerning administration of the Plan.

[continued]

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN

Notes to Financial Statements (*continued*)

On November 30, 1982, the Commonwealth, PEBSCO/Massachusetts, and the Public Employees Benefit Services Corporation (PEBSCO), parent company of PEBSCO/Massachusetts, entered into an agreement which appointed PEBSCO/Massachusetts as the exclusive plan coordinator for a three-year period commencing May 4, 1983, and being automatically renewed for additional five-year periods unless terminated by any party. The agreement was amended, effective November 3, 1985 and commencing on May 4, 1986, to state that the agreement will be automatically renewed for additional three-year periods unless terminated by any party.

For services performed as plan coordinator, PEBSCO/Massachusetts receives sales commissions directly from the insurance companies in which the participants elect to invest their contributions. No sales commissions were paid by The Bank of Boston or Boston Safe for contributions invested in bank savings investments.

PEBSCO and Nationwide Life Insurance Company are subsidiaries of Nationwide Corporation.

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN

Notes to Financial Statements (*continued*)

(6) Administrative Expenses,
Sales Charges and Asset Charges

Employee contributions invested in fixed annuities were subject to an annual fee of up to \$12 per participant to administer the employee's account and an asset assessment charge equal to an annual rate of .43% [.44% in 1986] of the fixed annuity contract value at year end. A 4% deferred sales charge will be assessed on all lump-sum withdrawals of fixed annuities related to contributions made subsequent to January 1, 1979, except death benefit payments, installments of a designated period, and life contingency options. This deferred sales charge percentage declines to zero after 16 years of plan participation which is effective after January 1, 1984.

Employee contributions invested in The Bank of Boston were subject to the following administrative charges:

- annual management fee of 3/10 of 1% of the market value of the investment portfolio,
- annual maintenance fee of \$7.50 per participant, and
- withdrawal charge of \$12.00 if an interim participant value calculation is required.

There were no charges assessed to the Plan for the Boston Safe investments during 1987. There are no administrative charges for life insurance contracts.

(*continued*)

**COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED
COMPENSATION PLAN**

Notes to Financial Statements (*continued*)

(7) Tax Status

The Plan is an eligible deferred compensation plan as defined by Section 457 of the Internal Revenue Code. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or his beneficiary.

MASS. T1.1/2:988

THE COMMONWEALTH OF MASSACHUSETTS DEFERRED COMPENSATION ANNUAL REPORT 1988

PUBLISHED TO HELP ALL MASSACHUSETTS STATE
EMPLOYEES STAY BETTER INFORMED ABOUT THEIR
STATE DEFERRED COMPENSATION PROGRAM

GOVERNMENT DOCUMENTS
COLLECTION

NOV 8 1993

University of Massachusetts
Dorchester Campus



Robert Q. Crane,
Plan Administrator

August 1, 1989



The Commonwealth of Massachusetts

Treasury Department

One Ashburton Place

Boston, MA 02108

Robert D. Crane

Treasurer and Receiver General

Dear Deferred Compensation Plan Participant:

I am pleased to provide you with the current audit report of your Plan account. You and I are among the 36,000 State, county, and municipal employees who have over \$370 million invested in this very successful program. The Plan's dual advantages of investing pre-tax dollars and earning tax-deferred interest have become much more attractive as the result of the U.S. Tax Reform Act of 1986. Beginning in January, 1987, many IRA investors lost part, if not all, of their ability to make pre-tax contributions to individual Retirement Accounts.

However, our Plan's advantages are retained in full. You may still defer as much as 25% of your government salary (to a maximum of \$7,500) every year and continue to enjoy the benefit of current tax deductions — both State and Federal.

As you plan for future financial security you might wish to consider increased deferrals under our Plan. As we begin our twelfth year, I am very proud of our record of achievement.

In conjunction with the Oversight Committee I will maintain our commitment to ensuring that our Plan is one of the best available.

Sincerely,

A handwritten signature in cursive script that reads "Robert Q. Crane".

Robert Q. Crane
Plan Administrator

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Financial Statements

December 31, 1988 and 1987

(With Independent Auditors' Report Thereon)

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Statements of Assets Available for Plan Benefits

December 31, 1988 and 1987

<u>Assets</u>	<u>1988</u>	<u>1987</u>
Investments (note 3)	\$ 358,168,744	269,832,356
Policyholder account value of life insurance contracts (note 4)	7,077,378	4,160,026
Contributions receivable	<u>5,432,556</u>	<u>4,038,886</u>
Assets available for plan benefits	\$ <u>370,678,678</u>	<u>278,031,268</u>

See accompanying notes to financial statements.

Statements of Changes in Assets Available for Plan Benefits

Years ended December 31, 1988 and 1987

	<u>1988</u>	<u>1987</u>
Additions:	\$ 80,944,548	64,000,514
Employee contributions	28,242,307	21,621,983
Interest income		
Increase in policyholder account value of life insurance contracts	<u>3,016,974</u>	<u>2,572,031</u>
	<u>112,203,829</u>	<u>88,194,528</u>
Deductions:	12,363,857	9,488,330
Distributions to participants	5,576,435	4,421,021
Life insurance premiums		
Administrative expenses, sales charges and asset charges (note 6)	<u>1,616,127</u>	<u>1,569,291</u>
	<u>19,556,419</u>	<u>15,478,642</u>
Net additions	92,647,410	72,715,886
Assets available for plan benefits, beginning of year	<u>278,031,268</u>	<u>205,315,382</u>
Assets available for plan benefits, end of year	\$ <u>370,678,678</u>	<u>278,031,268</u>

See accompanying notes to financial statements.

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Notes to Financial Statements

December 31, 1988 and 1987

(1) General Description of the Plan

(a) The Commonwealth of Massachusetts

The Commonwealth of Massachusetts (the Commonwealth) Employees Deferred Compensation Plan (the Plan) was established pursuant to Chapter 422 of the Acts of 1976. Under the Plan provisions, employees of the Commonwealth and Cities and Towns (note 1(b)) are eligible to contribute into the Plan, through payroll deductions, any amount up to 25% (not to exceed \$7,500) of their annual gross compensation. Amounts contributed by employees are deferred for Federal and state income tax purposes until benefits are paid to the employees. The Commonwealth does not make any contributions to the Plan.

All assets of the Plan are the sole property of the Commonwealth or Cities and Towns (the employer) and shall be subject to all the claims of the creditors of the employer. The employees' or their beneficiaries' rights are equal to that of a general creditor of the employer and in an amount equal to the value of the deferred account maintained with respect to the individual employee.

Employees electing to contribute to the Plan have the following options:

- Fixed annuities underwritten by Nationwide Life Insurance Company (Nationwide).
- Bank savings option with Boston Safe Deposit and Trust Company (Boston Safe) from December 15, 1987 to December 31, 1988.
- Bank savings option with The Bank of Boston from March 15, 1985 to December 14, 1987.
- Universal life insurance contracts underwritten by Peoples Security Life Insurance Company (Peoples).

Employees investing in fixed annuities or the bank savings option may, subject to the second preceding paragraph, withdraw the value of funds contributed to the Plan upon termination of employment, retirement, death, disability or financial hardship. Employees may select various pay-out options including lump-sum payments or payments over various periods. Depending upon the option selected, the payments may be actuarially determined.

(Continued)

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Notes to Financial Statements, Continued

At retirement or termination of employment, employees investing in universal life insurance contracts may continue to make premium payments directly to the insurance carrier or they may receive the cash surrender value of the contract. At the time of the death of an employee, the face value of the insurance contract is payable to the beneficiary.

(b) City, Town or Other Governmental Entity (Cities and Towns)

Provisions of Chapter 731 of the Acts of 1981 (the Act) enabled Cities and Towns of the Commonwealth to establish deferred compensation plans for their employees. The Act also provided the Cities and Towns the option of participating in the Plan of the Commonwealth. Only the Cities and Towns which elect to participate in the Plan and only the investment options provided thereunder are a part of, and are included in the financial statements of the Plan.

(2) Summary of Significant Accounting Policies

(a) Investments Valuation

Investments in units of fixed annuities are valued at the unit values reported by Nationwide, which represent contributions received plus interest earned to date less applicable charges and amounts withdrawn. The value of the bank savings option represents contributions received plus interest earned to date less applicable charges and amounts withdrawn.

(b) Life Insurance Valuation

Policyholder account value of life insurance contracts represents the balance of the universal life investment fund, including cash surrender values, maintained on behalf of the universal life policyholders of the Plan as reported by Peoples.

(c) Contributions Receivable

Contributions receivable represents amounts withheld from employees but not remitted to investment carriers at December 31.

(Continued)



COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Notes to Financial Statements, Continued

(d) Interest Income

The following table summarizes interest rates credited by option:

	<u>1988</u>	<u>1987</u>
Fixed annuities:		
Rate at year end	9.40%	9.65%
Range during the year	9.40% to 9.65%	9.65% to 10.25%
Bank savings option:		
Rate at year end	8.66%	6.25%
Range during the year	6.25% to 8.66%	6.00% to 6.25%
Universal life insurance contracts:		
Rate at year end	7.75%	8.50%
Range during the year	7.55% to 7.75%	7.00% to 9.00%

The assets held in fixed annuities for participants who have annuitized were credited interest based upon reserve assumptions used by Nationwide at the participant's annuitization date. These annuitization rates ranged from 6.00% to 11.75% during 1988 and 1987.

Interest income for all investment options is recorded as earned on the accrual basis.

(Continued)

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Notes to Financial Statements, Continued

(3) Investments

Investments at December 31 were as follows:

	<u>1988</u>	<u>1987</u>
Fixed annuities	\$ 335,373,923	252,067,666
Assets held for annuity payout reserves	19,073,655	13,731,441
Bank savings option	<u>3,721,166</u>	<u>4,033,249</u>
	\$ <u>358,168,744</u>	<u>269,832,356</u>

Investments of Cities and Towns participating in the plan amounted to \$86,612,192 and \$39,449,974 at December 31, 1988 and 1987, respectively.

Contributions to the bank savings option are invested in certificates of deposit and U.S. government securities.

(4) Life Insurance

The amount of life insurance in force as reported by Peoples in 1989 was approximately \$562,000,000 and \$461,000,000 at December 31, 1988 and 1987, respectively. In 1988, Peoples had reported life insurance in force at December 31, 1987 of \$558 million. The impact of the change in the 1987 life insurance in force amount was not material to the financial statements.

(5) Plan Administrator and Plan Coordinator

The Treasurer of the Commonwealth serves as the plan administrator and represents the Commonwealth and Cities and Towns in all matters concerning administration of the Plan.

On November 30, 1982, the Commonwealth, PEBSCO/Massachusetts, and the Public Employees Benefit Services Corporation (PEBSCO), parent company of PEBSCO/Massachusetts, entered into an agreement which appointed PEBSCO/Massachusetts as the exclusive plan coordinator for a three-year period commencing May 4, 1983, and being automatically renewed for additional five-year periods unless terminated by any party. The agreement was amended, effective November 3, 1985 and commencing on May 4, 1986, to state that the agreement will be automatically renewed for additional three-year periods unless terminated by any party.

(Continued)

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Notes to Financial Statements, Continued

For services performed as plan coordinator, PEBSCO/Massachusetts receives sales commissions directly from the insurance companies in which the participants elect to invest their contributions. No sales commissions were paid by The Bank of Boston or Boston Safe for contributions invested in bank savings investments.

PEBSCO and Nationwide are subsidiaries of Nationwide Corporation.

(6) Administrative Expenses, Sales Charges and Asset Charges

Employee contributions invested in fixed annuities were subject to an annual fee of up to \$12 per participant to administer the employee's account and an asset assessment charge equal to an annual rate of .39% (.43% in 1987) of the fixed annuity contract value. A deferred sales charge of up to 4% may be assessed on lump-sum withdrawals of fixed annuities related to contributions made subsequent to January 1, 1979, except death benefit payments, installments of a designated period, and life contingency options. This deferred sales charge percentage declines to zero after five years of plan participation which is effective after January 1, 1979.

Employee contributions invested in The Bank of Boston were subject to the following administrative charges:

- annual management fee of 3/10 of 1% of the market value of the investment portfolio,
- annual maintenance fee of \$7.50 per participant, and
- withdrawal charge of \$12.00 if an interim participant value calculation is required.

During 1988 Boston Safe assessed the Plan \$28,216 in Trustee fees.

(7) Tax Status

The Plan is an eligible deferred compensation plan as defined by Section 457 of the Internal Revenue Code. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or his beneficiary.

Independent Auditors' Report

Mr. Robert Q. Crane, Plan Administrator
Commonwealth of Massachusetts
Employees Deferred Compensation Plan:

We have audited the accompanying statements of assets available for plan benefits of the Commonwealth of Massachusetts Employees Deferred Compensation Plan (the Plan) as of December 31, 1988 and 1987, and the related statements of changes in assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets available for plan benefits at December 31, 1988 and 1987, and the changes in assets available for plan benefits for the years then ended, in conformity with generally accepted accounting principles.

Peat Marwick Main & Co.

April 13, 1989

MASS - T1.1/2: 989

THE COMMONWEALTH OF
MASSACHUSETTS

DEFERRED COMPENSATION
ANNUAL REPORT

1989

GOVERNMENT DOCUMENTS
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PUBLISHED TO HELP ALL MASSACHUSETTS STATE
EMPLOYEES STAY BETTER INFORMED
ABOUT THEIR STATE DEFERRED COMPENSATION
PROGRAM



PEBSO AND NATIONWIDE LIFE INSURANCE
COMPANY ARE SUBSIDIARIES OF NATIONWIDE
CORPORATION, PART OF THE NATIONWIDE
INSURANCE GROUP OF COMPANIES

Robert Q. Crane,
Plan Administrator

November 1, 1990

THE UNIVERSITY OF CHICAGO

DEPARTMENT OF CHEMISTRY

PHYSICAL CHEMISTRY
LABORATORY



JOHN D. COLEMAN
PROFESSOR OF CHEMISTRY

1951-1952

TABLE OF CONTENTS

Letter of Introduction	2
Commonwealth's Deferred Compensation Plan Still Growing	3
Some New Enhancements	4
Investment Comparison Report	5
1989 Deferred Compensation Annual Report	7-14
PEBSCO Services	15



The Commonwealth of Massachusetts
Treasury Department

One Ashburton Place
Boston, MA 02108

Robert Q. Crane

Treasurer and Receiver General

Dear Deferred Compensation Plan Participant:

As Plan Administrator of the Massachusetts Deferred Compensation Plan, I am pleased to present this annual report for the calendar year 1989. It includes the audited financial statements for 1989, which clearly demonstrates the increases in assets and levels of participation.

Many new enhancements have been added to the Plan such as the addition of retirement counselors and Dial DC (a Direct Inquiry Access Line). These and other enhancements are briefly described in this report.

Studies have shown that the Plan has one of the highest average net yields over the preceding years of any similar public employee deferred compensation plan in the entire country.

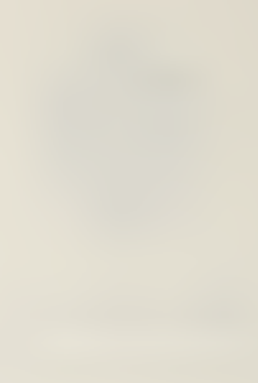
In conjunction with the Oversight Committee, I will maintain our commitment to ensuring that this Plan is one of the best, most successful supplemental plans available.

Sincerely,

A handwritten signature in cursive script that reads "Robert Q. Crane".

Robert Q. Crane
Plan Administrator

University of Illinois
Department of
Chemistry
Urbana, Illinois



Very truly yours,
[Signature]
[Name]
[Title]
[Address]

June 1, 1919
Dear Sir:

The following people review the day to day operations and activities of the Plan to ensure that participants are provided competitive investment options and quality service:

Robert Q. Crane Plan Administrator and Treasurer of the
Commonwealth of Massachusetts

Santo P. Pasqualucci Oversight Committee
(appointed by the Governor)

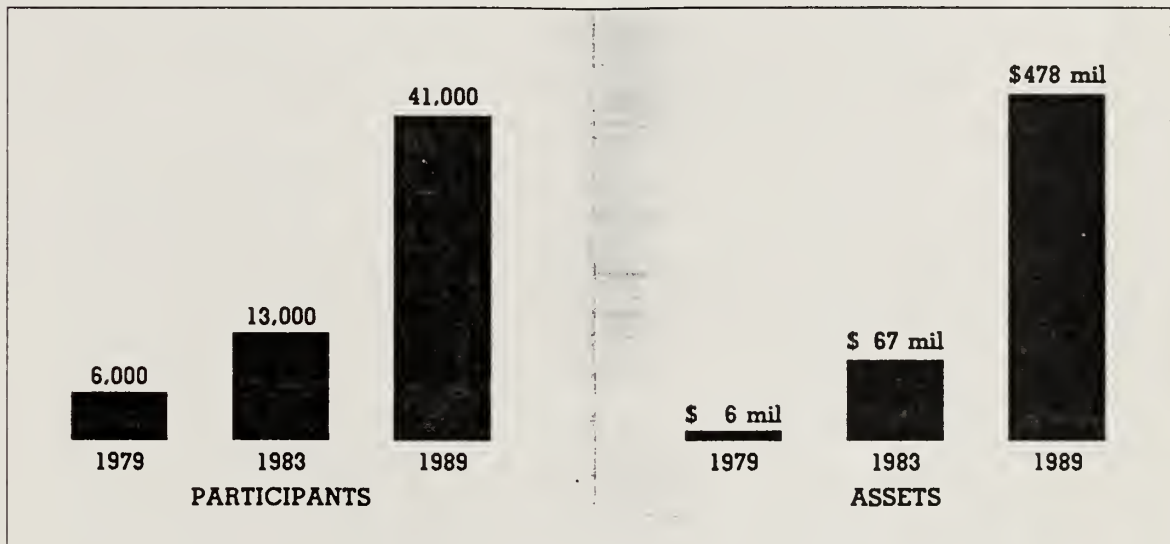
Richard V. Kelly Oversight Committee
(appointed by the State Treasurer)

Susan K. Scott Oversight Committee
(appointed by the State Insurance Commissioner)

COMMONWEALTH'S DEFERRED COMPENSATION PLAN STILL GROWING

The Commonwealth of Massachusetts Deferred Compensation Program has experienced substantial growth over the years. As 1990 began, approximately 41,000 public employees were participating with plan assets totaling over \$478 million. The graphs below illustrate the growth of the program since its inception.

GROWTH CHART



The Commonwealth of Massachusetts and PEBSCO, the Deferred Compensation Plan Coordinator, signed a new contract in 1989. This new contract provides for many new enhancements to the Plan in 1990.

Some of these enhancements are:

DIAL DC—This is a Direct Inquiry Access Line which enables you to obtain account information for deferred compensation option(s). This telephone system is designed so you can quickly obtain rates of return through an automated voice response system.

RETIREMENT COUNSELORS—Retirement counselors have been assigned to the State Treasurer's office to provide retirement counseling. These counselors are experienced in state and city pension plans within the Commonwealth of Massachusetts.

ALL PEBSCO sales representatives are now utilizing **LAP TOP COMPUTERS** to provide personalized illustrations to participants on the Commonwealth of Massachusetts Deferred Compensation Plan. These computers will make it easier to review investment options and tax consequences.

A CRT has been installed in the State Treasurer's office to provide greater convenience in accessing participant account information.

RATE OF RETURN COMPARISON

	1988				1989	
	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr
Treasury Securities						
1-Year	8.53%	8.00%	7.30%	6.78%	7.83%	8.10%
3-Year	8.75%	8.59%	8.10%	7.58%	7.86%	8.07%
5-Year	8.80%	8.76%	8.42%	7.91%	7.84%	8.03%
10-Year	8.96%	9.10%	8.91%	8.42%	7.91%	8.11%

Nationwide Fixed Interest Option

Deposits prior to 1/1/82	9.40%	9.50%	9.60%	9.65%	9.40%	9.55%
Deposits on or after 1/1/82	9.40%	9.50%	9.60%	9.65%	9.40%	9.55%

Interest Rates DO NOT reflect the deduction of the annual asset fee:

1/1/88-4/19/88	0.42%
4/20/88-12/31/88	0.39%
1/1/89-12/31/89	0.35%

5

The 1990 interest guarantees under the Nationwide Fixed Interest Option are as follows:

INTEREST RATES*

1990 Annual Minimum	8.85%
1st Quarter 1990	9.31%
2nd Quarter 1990	9.26%
3rd Quarter 1990	9.06%
4th Quarter 1990	9.01%

*Interest rates apply to all deposits (old AND new) and DO NOT reflect the deduction of the 0.31% annual asset fee

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Financial Statements

December 31, 1989 and 1988

(With Independent Auditors' Report Thereon)

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Statements of Assets Available for Plan Benefits

December 31, 1989 and 1988

<u>Assets</u>	<u>1989</u>	<u>1988</u>
Investments (note 3)	\$ 462,279,955	358,168,744
Policyholder account value of life insurance contracts (note 4)	10,516,000	7,077,378
Contributions receivable	4,807,164	5,432,556
Cash	<u>402,119</u>	<u>-</u>
Assets available for plan benefits	\$ <u>478,005,238</u>	<u>370,678,678</u>

See accompanying notes to financial statements.

Statements of Changes in Assets Available for Plan Benefits

Years ended December 31, 1989 and 1988

	<u>1989</u>	<u>1988</u>
Additions:		
Employee contributions	\$ 92,880,830	80,944,548
Interest income	37,010,735	28,242,307
Increase in policyholder account value of life insurance contracts	<u>3,641,633</u>	<u>3,016,974</u>
	<u>133,533,198</u>	<u>112,203,829</u>
Deductions:		
Distributions to participants	17,926,870	12,363,857
Life insurance premiums	6,448,455	5,576,435
Administrative expenses, sales charges and asset charges (note 6)	<u>1,831,313</u>	<u>1,616,127</u>
	<u>26,206,638</u>	<u>19,556,419</u>
Net additions	107,326,560	92,647,410
Assets available for plan benefits, beginning of year	<u>370,678,678</u>	<u>278,031,268</u>
Assets available for plan benefits, end of year	\$ <u>478,005,238</u>	<u>370,678,678</u>

See accompanying notes to financial statements.

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Notes to Financial Statements

December 31, 1989 and 1988

(1) General Description of the Plan

(a) The Commonwealth of Massachusetts

The Commonwealth of Massachusetts (the Commonwealth) Employees Deferred Compensation Plan (the Plan) was established pursuant to Chapter 422 of the Acts of 1976. Under the Plan provisions, employees of the Commonwealth and its Political Subdivisions are eligible to contribute into the Plan, through payroll deductions, any amount up to 25% (not to exceed \$7,500) of their annual gross compensation. Amounts contributed by employees are deferred for Federal and state income tax purposes until benefits are paid to the employees. The Commonwealth does not make any contributions to the Plan.

All assets of the Plan are the sole property of the Commonwealth and are subject only to the claims of its general creditors, including its Political Subdivisions which participate in the Plan. The rights of employees and their beneficiaries are also those of general creditors of the Commonwealth in an amount equal to the value of the deferred account maintained with respect to the individual employee.

Employees electing to contribute to the Plan have the following options:

- Fixed annuities underwritten by Nationwide Life Insurance Company (Nationwide).
- Bank savings option with Boston Five Cents Savings Bank starting January 1, 1989.
- Bank savings option with Boston Safe Deposit and Trust Company (Boston Safe) from December 15, 1987 to December 31, 1988.
- Universal life insurance contracts underwritten by Peoples Security Life Insurance Company (Peoples).

Employees investing in fixed annuities or the bank savings option may, subject to the rights of other general creditors, withdraw the value of funds contributed to the Plan upon termination of employment, retirement, death, disability or financial hardship. Employees may select various payout options including lump-sum payments or payments over various periods. Depending upon the option selected, the payments may be actuarially determined.

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Notes to Financial Statements, Continued

At termination of employment or retirement, employees investing in universal life insurance contracts may continue to make premium payments directly to the insurance carrier or they may receive the cash surrender value of the contract. In the case of death of an employee, the face value of the insurance contract is payable to the beneficiary.

(b) City, Town or Other Governmental Entity (Political Subdivisions)

Provisions of Chapter 731 of the Acts of 1981 (the Act) enable Political Subdivisions of the Commonwealth to establish deferred compensation plans for their employees. The Act provides Political Subdivisions the option of participating in the Plan of the Commonwealth. Only the Political Subdivisions which elect to participate in the Plan, and only the investment options provided thereunder, are a part of, and are included, in the financial statements of the Plan.

(2) Summary of Significant Accounting Policies

(a) Investments Valuation

Investments in units of fixed annuities are valued at the unit values reported by Nationwide, which represent contributions received plus interest earned to date less applicable charges and amounts withdrawn. The value of the bank savings option represents contributions received plus interest and dividends earned to date less applicable charges and amounts withdrawn.

(b) Life Insurance Valuation

Policyholder account value of life insurance contracts represents the balance of the universal life investment fund, including cash surrender values, maintained on behalf of the universal life policyholders of the Plan as reported by Peoples.

(c) Contributions Receivable

Contributions receivable represents amounts withheld from employees but not remitted to investment carriers at December 31.

(d) Cash

Cash represents amounts held on deposit for the Plan.

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Notes to Financial Statements, Continued

(e) Interest Income

The following table summarizes interest rates credited by option:

	<u>1989</u>	<u>1988</u>
Fixed annuities:		
Rate at year-end	9.40%	9.40%
Range during the year	9.30% to 9.55%	9.40% to 9.65%
Bank savings option:		
Rate at year-end	9.00%	8.66%
Range during the year	6.25% to 9.00%	6.25% to 8.66%
Universal life insurance contracts:		
Rate at year-end	7.00%	7.75%
Range during the year	7.00% to 7.95%	7.55% to 7.75%

The assets held in fixed annuities for participants who have annuitized were credited interest based upon reserve assumptions used by Nationwide at the participant's annuitization date. These annuitization rates ranged from 6.00% to 11.75% during both 1989 and 1988.

Interest income for all investment options is recorded as earned on the accrual basis.

(3) Investments

Investments at December 31 were as follows:

	<u>1989</u>	<u>1988</u>
Fixed annuities	\$ 434,096,499	335,373,923
Assets held for annuity payout reserves	24,778,651	19,073,655
Bank savings option	<u>3,404,805</u>	<u>3,721,166</u>
	<u>\$ 462,279,955</u>	<u>358,168,744</u>

The above annuities reflect investments made by the Plan under fixed insurance contracts with Nationwide. Nationwide's performance under the insurance contracts is guaranteed by its parent organization.

Investments of Political Subdivisions participating in the Plan amounted to \$105,675,746 and \$86,612,192 at December 31, 1989 and 1988, respectively, and are included in the above schedule.



COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Notes to Financial Statements, Continued

Contributions to the bank savings option are invested in certificates of deposit (\$3,160,000 at December 31, 1989) and a money market fund (\$244,805 at December 31, 1989), and we held in the name of the Plan. Book and bank balances in the bank savings option are equal and are collateralized at 106% with the collateral held at another custodian bank in the name of the Plan.

(4) Life Insurance

The amount of life insurance in force as reported by Peoples was approximately \$651,000,000 and \$562,000,000 at December 31, 1989 and 1988, respectively.

(5) Plan Administrator and Plan Coordinator

The Treasurer of the Commonwealth serves as the plan administrator and represents the Commonwealth and its Political Subdivisions in all matters concerning administration of the Plan.

For the period through December 31, 1989, a subsidiary of Public Employees Benefit Services Corporation (PEBSCO), PEBSCO/Massachusetts was the exclusive Plan Coordinator under a contract initially entered into on November 30, 1982 and subsequently amended.

Effective January 1, 1990, the Commonwealth entered into a new four-year contract with PEBSCO/Massachusetts following a competitive bid process. For services rendered under the agreement, the Commonwealth will collect commissions and service fees directly from the investment providers, and will pay PEBSCO/Massachusetts a monthly fee of 0.0375% of Plan assets.

For services performed as plan coordinator during 1989 and 1988, PEBSCO/Massachusetts received sales commissions directly from the insurance companies in which the participants elected to invest their contributions. No sales commissions were paid by Boston Five Cents Savings Bank or Boston Safe for contributions invested in bank savings options.

PEBSCO and Nationwide are subsidiaries of Nationwide Corporation.

(Continued)

COMMONWEALTH OF MASSACHUSETTS
EMPLOYEES DEFERRED COMPENSATION PLAN

Notes to Financial Statements, Continued

(6) Administrative Expenses, Sales Charges and Asset Charges

Employee contributions invested in fixed annuities were subject to an annual fee of up to \$12 per participant to administer the employee's account and an asset assessment charge equal to an annual rate of .35% (.39% in 1988) of the fixed annuity contract value. A deferred sales charge of up to 4% may be assessed on lump-sum withdrawals of fixed annuities related to contributions made subsequent to January 1, 1979, except death benefit payments, installments of a designated period, and life contingency options. This deferred sales charge percentage declines to zero after five years of plan participation which is effective after January 1, 1979.

Employee contributions invested in Boston Five Cents Savings Bank were subject to the same administrative charges, except that the asset assessment charge was .45% of the bank savings value.

During 1988 Boston Safe assessed the Plan \$28,216 in fees.

(7) Tax Status

The Plan is an eligible deferred compensation plan as defined by Section 457 of the Internal Revenue Code. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or his beneficiary.

Independent Auditors' Report

Mr. Robert Q. Crane, Plan Administrator
Commonwealth of Massachusetts
Employees Deferred Compensation Plan:

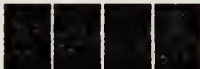
We have audited the accompanying statements of assets available for plan benefits of the Commonwealth of Massachusetts Employees Deferred Compensation Plan (the Plan) as of December 31, 1989 and 1988, and the related statements of changes in assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets available for plan benefits at December 31, 1989 and 1988, and the changes in assets available for plan benefits for the years then ended, in conformity with generally accepted accounting principles.

KPMG Peat Marwick

April 20, 1990



Member Firm of
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PEBSCO SERVICES

PEBSCO, coordinator of your deferred compensation program, is prepared to assist all plan participants. Your primary sources of information are the PEBSCO Customer Service Center, your local PEBSCO representative and PEBSCO Retirement Counselors.

**Please call the Customer Service Center
if you have questions about:**

- ❖ account values and unit values
- ❖ statement of account information
- ❖ unforeseeable emergency withdrawals
- ❖ account record changes
- ❖ address changes
- ❖ payout information

1-800-545-4730
8:30 a.m. - 5:00 p.m.
Monday through Friday

**Please call or write your local PEBSCO
Deferred Compensation Marketing
Representative if you have questions
about:**

- ❖ plan enrollment
- ❖ funding options
- ❖ increasing or decreasing deferrals
- ❖ funding selection changes
- ❖ beneficiary changes

1-800-732-3760
or 8:30 a.m. - 5:00 p.m.
(508) 741-0850 Monday through Friday

PEBSCO
One Salem Green
Suite 410
Salem, MA 01970

**If you need to contact a Retirement Counselor, please
call or write us at the following address:**

The Commonwealth of Massachusetts
Treasurer's Office
12th Floor, Room 1219
One Ashburton Place
Boston, MA 02108

(617) 367-3900, extension 380
8:30 a.m. - 5:00 p.m.
Monday through Friday

Please do not hesitate to contact any of these sources if you need information on deferred compensation

